

# PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)

Consolidated Balance Sheets

(Unaudited and Unreviewed)

(Expressed in Canadian Dollars)

	March 31	June 30
	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,137,035	\$ 126,073
Advances and sundry receivables	31,318	12,027
Prepaid and deposit	46,893	-
<b>Total current assets</b>	<b>1,215,246</b>	<b>138,100</b>
<b>Mineral interests</b> (Note 5)	<b>-</b>	<b>-</b>
<b>Equipment</b> (Note 6)	<b>83,720</b>	<b>99,308</b>
<b>Total assets</b>	<b>\$ 1,298,966</b>	<b>\$ 237,408</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 63,346	\$ 70,583
Due to related parties (Note 7)	260,312	663,000
<b>Total current liabilities</b>	<b>323,658</b>	<b>733,583</b>
<b>Due to a related party</b> (Note 7)	<b>-</b>	<b>375,000</b>
<b>Total liabilities</b>	<b>323,658</b>	<b>1,108,583</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Share capital</b>		
Authorized: unlimited common shares with no par value (Note 8)	2,101,045	312,500
<b>Contributed surplus</b> (Note 7)	<b>1,764,050</b>	<b>495,600</b>
<b>Deficit</b>	<b>(2,889,787)</b>	<b>(1,679,275)</b>
<b>Total shareholders' equity (deficiency)</b>	<b>975,308</b>	<b>(871,175)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,298,966</b>	<b>\$ 237,408</b>

Approved by the Directors:

"Michael Liu"

Michael Liu

"Leo King"

Leo King

## PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)  
Statements of Operations and Deficit  
(Unaudited and Unreviewed)  
(Expressed in Canadian Dollars)

	Three Months Ended March 31 2005	Nine Months Ended March 31 2005
<b>Exploration costs (Note 5(e))</b>	\$ 3,522	\$ 35,146
<b>Expenses</b>		
Accounting and audit	9,830	42,070
Amortization	5,491	16,646
Consulting fees	7,596	35,695
Foreign exchange loss (gain)	(2,937)	26,987
General exploration	2,768	2,768
Interest expenses	2	174
Legal	12,816	32,335
Listing and filing fees	-	996
Management fees	37,140	75,780
Office and miscellaneous	16,183	53,557
Promotion and government relations	7,043	19,598
Salaries and benefits	15,765	43,254
Stock based compensation	-	567,969
Transfer agent fees	2,262	9,269
Travel and transportation	14,935	67,956
Interest income	(13)	(44)
	128,881	995,010
<b>Loss for the period</b>	(132,403)	(1,030,156)
Net liability acquired (Note 4)	-	(180,356)
<b>Deficit, beginning of period</b>	(2,757,384)	(1,679,275)
<b>Deficit, end of period</b>	\$ (2,889,787)	\$ (2,889,787)
<b>Loss per share</b>	\$ -	\$ (0.04)
Weighted average number of shares outstanding		
- basic and fully diluted	31,546,728	24,454,027

# PACIFIC IMPERIAL MINES INC.

(An exploration stage enterprise)

Statements of Cash Flows

(Unaudited and Unreviewed)

(Expressed in Canadian Dollars)

	Three Months Ended March 31 2005	Nine Months Ended March 31 2005
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (132,403)	\$ (1,030,156)
Adjustment for items not involving cash:		
- amortization of equipment	5,491	16,646
- stock based compensation	-	567,969
Change in non-cash working capital items:		
- sundry receivable	(6,310)	33,787
- prepaid and deposit	(46,893)	(46,893)
- accounts payable and accrued liabilities	(17,796)	(166,455)
<b>Net cash provided by (used in) operating activities</b>	<b>(197,911)</b>	<b>(625,102)</b>
<b>Cash flows from (used in) financing activities</b>		
Repayment of bank loan	-	(90,000)
Shares issued for cash	-	1,788,545
Advances from (to) related parties	(9,165)	(77,207)
<b>Net cash provided by financing activities</b>	<b>(9,165)</b>	<b>1,621,338</b>
<b>Cash flows used in investing activities</b>		
Cash acquired from reverse takeover	-	14,726
<b>Net cash used in investing activities</b>	<b>-</b>	<b>14,726</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(207,076)</b>	<b>1,010,962</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,344,111</b>	<b>126,073</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,137,035</b>	<b>\$ 1,137,035</b>

# **PACIFIC IMPERIAL MINES INC.**

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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## **1. Basis of Presentation**

These interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual financial statements of the Company. These interim financial statements should be read in conjunction with the Company's audited financial statements of GoldChina Holdings Group Limited ("GoldChina") as of June 30, 2004 as the Company is deemed to be a continuation of GoldChina as result of the reverse take-over transaction which is described in more details in note 2 and note 4 below. Interim results are not necessary indicative of the results expected for the fiscal year.

Comparative statements of operations and cash flows for the corresponding period ended March 31, 2004 are not available as GoldChina was a private company.

## **2. Nature of Operations**

On September 20, 2004, the Company completed the acquisition of all of the issued and outstanding shares of GoldChina Holdings Group Limited by issuing 15,700,000 common shares of the Company. This business combination has been accounted for as a reverse takeover with GoldChina as the accounting parent (see Note 4).

GoldChina through its wholly-owned subsidiary, Guangnan Tangshang Gold Co., Ltd. ("GGC"), holds the exploration rights to explore two exploration properties, known as Tangshang and Salachong properties, located in Yunnan province, China. It also holds a right of first refusal to acquire the exclusive exploration rights in respect of 17 additional properties in Yunnan province, China.

## **3. Significant Accounting Policies**

### **(a) Mineral Interests**

The Company follows the method of accounting for its mineral interest whereby all costs related to exploration and development are expensed when incurred until such time as reserves are proven.

### **(b) Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries GoldChina and GGC. All significant inter-company balances and transactions have been eliminated.

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 3. Significant Accounting Policies (continued)

#### (c) Foreign Currency Translation

The functional currency of GoldChina is the Chinese Renminbi Yuan (RMB) and its accounts are considered to be integrated foreign operations, and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the period end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at average rates for the period and exchange gains and losses on translation are included in income.

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at transaction dates.

### 4. Acquisition of GoldChina Holdings Group Limited (“GoldChina”)

On September 20, 2004, the Company completed the acquisition of GoldChina by issuing 15,700,000 common shares in exchange for all of the issued and outstanding shares of GoldChina.

This transaction resulted in the former shareholders of GoldChina owning the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over have been applied to record this acquisition. Under this basis of accounting, GoldChina has been identified as the acquirer and, accordingly, the combined entity is considered to be a continuation of GoldChina with the net liabilities of \$180,356 of the Company deemed to have been assumed by GoldChina.

The net liabilities assumed are summarized as follows:

Cash and cash equivalents	\$	14,726
Receivable and advances		53,078
Equipment		1,058
Bank loan		(90,000)
Accounts payable and accrued liabilities		(159,218)
Net liability charged to retained earnings (deficit)	\$	(180,356)

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 4. Acquisition of GoldChina Holdings Group Limited ("GoldChina") (continued)

The operating results of the Company for the period July 1, 2004 to September 20, 2004 (date of reverse take-over) are summarized as follows:

Accounting and audit	\$	260
Amortization		74
Consulting		1,375
Interest expenses		633
Legal		29,769
Listing and filing fees		18,146
Management fees		12,793
Office and miscellaneous		950
Shareholder communication		653
Transfer agent fees		4,479
Travel and promotion		15,814
Interest income		(43)
Net loss for the period	\$	84,903

### 5. Mineral Interests

- (a) On August 30, 2004, the Company entered into a Cooperative Agreement (the "Agreement") with Kobex Resources Ltd. ("Kobex"), a company with common directors of the Company. Pursuant to the Agreement, Kobex is granted a right of first refusal to acquire a 60% undivided interest in one resource property available to the Company (the "Property"), excluding the Tangshang and Salachong properties. In order to acquire the interest, Kobex is required to fund US\$3,000,000 of exploration and development expenditures on the property within three years from the date that Kobex identifies a property to pursue an interest in, but no later than three years from the date of the Agreement. If this requirement is not met, Kobex's rights under this Agreement will be terminated.

For the property selected, Kobex will also be required to issue to the Company up to an aggregate of 1,000,000 shares from its treasury on a staged basis as follows:

- (i) 200,000 shares upon receipt of title to the property;
- (ii) 200,000 shares upon expenditures by Kobex of US\$1,000,000 on the property;
- (iii) 200,000 shares upon expenditures by Kobex of a cumulative amount of US\$3,000,000 on the property;
- (iv) 400,000 shares upon a production decision being made by the parties in respect of the property.

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 5. Mineral Interests (continued)

- (b) The Company was granted two (2) mineral exploration licenses, called "Tangshang Gold" and "Salachong Gold", by the Government of China. These two properties are located in Guangnan County, Yunnan province, China. The exploration licenses are valid until February 5, 2006 for Salachong Gold Property and February 27, 2006 for Tangshang Gold Property. The licenses are renewable on an annual basis.

The Company has agreed that if the minimum mineable gold reserve is six tons or higher, the Company would pay \$2,296,875 (RMB 14,700,000) to its two former shareholders, as follow:

- (i) \$1,312,500 (RMB 8,400,000) is due on:
- the completion of all of the exploration work on the Tangshang and Salachong properties; and
  - the confirmation of the exploration results and resource reserves by the Reserve Evaluation Centre of the State Ministry of Land & Resources or Provincial Department of Land and Resources (the "Reserve Confirmation").
- (ii) \$984,375 (RMB 6,300,000) is due and payable 360 business days following payment of the amount due on Reserve Confirmation.

In the event that the aforementioned payments become due prior to December 31, 2005 and the Company has insufficient funds, certain shareholders of the Company will pay on behalf of the Company and the Company shall reimburse such payments to them on the earlier of December 31, 2005 or the date that the Company has sufficient funds.

- (c) On October 22, 2003, the Company through GGC entered into a Preferable Co-operation Agreement with Yunnan Non-Ferrous Metals Geological Bureau, a Chinese Government Agency. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of eight (8) natural resource properties (Shededi Gold, Xiaoguanzhai Gold, Liangshan Gold, Gaoliang Gold, Bawai Gold, Shangzhemeng Gold, Dongmujin Gold and Shangliantang Gold). All these properties are located in Yunnan province, China.

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

### 5. Mineral Interests (continued)

(d) On February 11, 2004, the Company through GGC entered into a second Preferable Cooperation Agreement with Yunnan Non-Ferrous Metals Geological Bureau. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of the following nine (9) additional resources properties all located in the Yunnan province, China:

- Jinduo Gold;
- Liuchaichong Gold;
- Wujiazhai Gold & Silver;
- Shihaduo Gold;
- Yanjia Gold & Copper;
- Manlonggou Gold;
- Epu Gold;
- Liaobei Gold; and
- Xiazhai Gold.

(e) Exploration costs incurred are as follows:

	Cumulative Exploration Costs at March 31, 2005		
	Total	Tangshang	Salachong
Governmental fees	\$ 546,875	\$ 546,875	\$ -
Labour	13,252	13,252	-
Land compensation fees	30,365	30,365	-
Land lease	161,059	161,059	-
Professional fees	41,908	20,547	21,361
Road construction	53,541	-	53,541
Sub-contract geological exploration	687,500	343,751	343,749
Surface facilities and supplies	85,401	84,066	1,335
Valuation and geological report	77,516	38,758	38,758
Recovery – sundry gold sale	(415,689)	(415,689)	-
<b>Total exploration costs for the period</b>	<b>\$ 1,281,728</b>	<b>\$ 822,984</b>	<b>\$ 458,744</b>

	Exploration Costs for Nine Months Ended March 31, 2005		
	Total	Tangshang	Salachong
Professional fees	\$ 19,270	\$ 9,635	\$ 9,635
Road construction	12,353	-	12,353
Surface facilities and supplies	3,523	2,188	1,335
<b>Total exploration costs for the period</b>	<b>\$ 35,146</b>	<b>\$ 11,823</b>	<b>\$ 23,323</b>

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 6. Equipment

	March 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 92,193	\$ 26,960	\$ 65,233
Motor vehicles	20,951	9,147	11,804
Office equipment and furniture	9,348	2,665	6,683
<b>Total</b>	<b>\$122,492</b>	<b>\$38,772</b>	<b>\$83,720</b>

	June 30, 2004		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 92,193	\$ 14,672	\$ 77,521
Motor vehicles	20,951	6,097	14,854
Office equipment and furniture	7,435	502	6,933
<b>Total</b>	<b>\$120,579</b>	<b>\$21,271</b>	<b>\$99,308</b>

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 7. Related Party Transactions

The following are related party transactions which are not disclosed elsewhere in the consolidated financial statements:

- (a) Amounts due to related parties are unsecured and non-interest bearing.

	March 31 2005	June 30 2004
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina (see note 7d)	\$ 147,000	\$ 234,375
Yunnan Golden Industrial Investment Co., Ltd. - a former shareholder of GoldChina (see note 7d)	-	78,125
Beijing United Capital Investment Co., Ltd. – a corporation controlled by two directors of the Company (see note 7d)	113,312	350,500
Subtotal – due on demand	260,312	663,000
A corporation related to a former corporate shareholder (of GoldChina) under common control (see note 7b)	-	375,000
Total	\$ 260,312	\$ 1,038,000

- (b) In 2003, the Company signed a geological operation agreement (“Agreement”) with a corporation related to a corporate shareholder under common control. Pursuant to the Agreement, the Company agreed to pay a total of \$723,438 (RMB 4,630,000), subsequently amended to \$687,500 (RMB 4,400,000) for certain geological exploration services. As at June 30, 2004, \$375,000 (RMB 2,400,000) remained unpaid. In August 2004 RMB 2,400,000 was forgiven by this corporation and the amount was credited to contributed surplus (Note 9).
- (c) During the nine months ended March 31, 2005, the Company incurred consulting fees of \$22,545 (RMB 150,000) to two corporations controlled by directors of the Company and incurred management fees of \$75,780 to a director of the Company, a corporation associated with a director of the Company, another corporation controlled by a director, and a corporation with two common directors and management.
- (d) In August 2004, debts of \$325,481 (RMB 2,000,000) owed by the Company were forgiven by the three former corporate shareholders of GoldChina. These amounts were credited to contributed surplus (Note 9).

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 8. Share Capital

(a) Authorized: unlimited common shares with no par value

(b) Issued:

	Shares	Amount
Shares issued and outstanding immediately before reverse acquisition	7,846,728	\$ 312,500
Shares issued to effect the acquisition of GoldChina and recapitalization	15,700,000	-
Shares issued pursuant to private placement, net of issuance costs	8,000,000	1,788,545
Shares issued and outstanding as at March 31, 2005	31,546,728	\$2,101,045

In September 2004, the Company completed two private placements of 8,000,000 units in total; 6,000,000 units brokered and 2,000,000 units non-brokered, at a price of \$0.25 per unit for aggregate gross proceeds of \$2,000,000. Each unit consists of one common share and one purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at \$0.45 per share for a period of two years, subject to an accelerated expiry clause.

Pursuant to the brokered placement, the Company paid the agent cash commission and corporate finance fee totaling \$211,455, and issued 560,000 Broker Warrants. The Broker Warrants entitles the holder to acquire one common share of the Company at \$0.25 per share for a period of two years. There were no commissions or fees paid for the non-brokered private placement.

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 8. Share Capital (continued)

#### (c) Warrants

As at March 31, 2005, the following warrants were outstanding. Each warrant entitles the holder to acquire one common share of the Company.

Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (Years)
\$0.25	560,000	1.5
\$0.45	8,000,000	1.5
	8,560,000	1.5

Of the total warrants outstanding at March 31, 2005, 560,000 were Broker warrants.

#### (d) Stock Options

During the annual general meeting on December 17, 2004, the Company adopted a stock option plan whereby the Company can grant stock options to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding share capital of the Company from time to time.

On September 20, 2004, pursuant to the stock option plan, the Company granted to its directors and officers incentive stock options to purchase an aggregate of 1,860,000 common shares of the Company exercisable at the price of \$0.25 per share for a period of five years from date of grant. The options are vested immediately.

A summary of the status of options granted under the Company's stock option plans is presented below. No options have been exercised during the period.

	Shares	Weighted Average Exercise Price
Options outstanding at June 30, 2004	-	\$ -
Granted	1,860,000	0.25
Options outstanding and exercisable at March 31, 2005	1,860,000	\$ 0.25

The weighted average life of the options outstanding and exercisable is 3.81 years.

## PACIFIC IMPERIAL MINES INC.

Notes to Consolidated Financial Statements (Unaudited and Unreviewed)

March 31, 2005 (Expressed in Canadian Dollars)

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### 8. Share Capital (continued)

#### (d) Stock Options (continued)

A summary of the weighted average fair value of stock options granted during the nine months ended March 31, 2005 is as follows:

	Weighted Average Exercise Price	Weighted Average Fair Value
Exercise price less than market price at grant date:	\$ 0.25	\$ 0.31

The Company charged \$567,969 stock based compensation by applying fair value based method of accounting for the stock options granted during the nine months ended March 31, 2005. The fair value of all options granted has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	March 31, 2005
Risk-free interest rate	3.93%
Dividend yield	0%
Volatility	123.18%
Average expected lives	5 years

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

### 9. Non-Cash Transactions

In August 2004, debts of \$700,481 (RMB 4,400,000) owed by the Company were forgiven by the two former corporate shareholders, a corporation related to a former corporate shareholder under common control, and a corporation controlled by two directors of the Company (Notes 7b & 7d).

**PACIFIC IMPERIAL MINES INC.**  
**Management Discussion and Analysis**  
**Nine Months Ended March 31, 2005**

The following discussion and analysis, prepared as of May 25, 2005, should be read in conjunction with the unaudited consolidated financial statements of Pacific Imperial Mines Inc. (the "Company") for the nine months ended March 31, 2005, together with the related notes thereto. The unaudited and unreviewed interim financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Additional information is also provided in the Company's audited consolidated financial statements for the year ended June 30, 2004.

This Management Discussion & Analysis summarizes the activities of the Company to date, and provides financial information for the nine months ended March 31, 2005. The discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

**Description of Business**

Pacific Imperial Mines Inc. is a mineral exploration company engaged in the acquisition and exploration of mineral properties in People's Republic of China. In September 2004, the Company was successful in acquiring a mineral exploration venture through a reverse take-over transaction which resulted in the former shareholders of GoldChina owning the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over have been applied to record this acquisition. Under this basis of accounting, GoldChina has been identified as the acquirer and accordingly, the combined entity is considered to be a continuation of GoldChina with the liabilities of \$180,356 of the Pacific Imperial Mines Inc., prior to this reverse take-over transaction, deemed to have been assumed by GoldChina. The Company continues to be listed on the TSX Venture Exchange as a Tier 2 natural resource issuer under the symbol "PPM".

During the annual and extraordinary general meeting held in July 2004, the Company's shareholders approved the following by way of special resolutions:

- (1) Removal of the pre-existing company provisions under the Business Corporations Act (British Columbia);
- (2) Adoption of a new form of Articles for the Company.

The main purpose of first resolution was to comply with the new Business Corporation Act (British Columbia) and the second resolution, among other things, was to allow the Company to have future special resolutions passed by two third of the shareholders in attendance during an extraordinary general meeting instead of seventy five percent that was required previously. In addition, the Company is allowed change the authorized share capital to unlimited, which the Company has done so on August 27, 2004. These resolutions are more particularly described in Page 8 and 10 of the Information Circular dated June 23, 2004.

**Business Acquisition**

On May 4, 2004 the Company announced the signing of a Share Purchase Agreement (the "GoldChina Agreement") with East Asian Global Finance Limited, Success Period Resources Limited and Gold Carlin Minerals Co., Ltd. (each privately held British Virgin Island companies) and 17 other parties, most of whom are residents of China (collectively the "Vendors") whereby the Company would acquire 100% of the issued and outstanding shares of GoldChina Holdings Group Limited ("GoldChina"), a British Virgin Island company.

GoldChina, through its wholly owned Chinese subsidiary, Yunnan Guangnan Gold Company Limited ("Guangnan Gold"), holds the exploration rights, through an agreement with Yunnan Non Ferrous Metal Geological Bureau ("YNMGB"), to explore two exploration properties located in Yunnan Province, China and known as the Tangshang and Salachong properties, covering a combined area of approximately 61 square kms. In addition, Guangnan Gold holds a right of first refusal to acquire the exclusive exploration rights in respect of 17 additional properties in Yunnan Province (covering an aggregate area of approximately 600 square kms.).

Under the terms of the GoldChina Agreement, the Company agreed to issue to the Vendors an aggregate of 15,700,000 common shares at a deemed price of \$0.07 per share (the "Purchase Shares") in consideration for the shares of GoldChina. The Vendors, East Asian Global Finance Limited, Gold Carlin Minerals Co. Ltd. and Success Period Resources Limited will receive 37.3%, 29.1% and 8.1% of the Purchase Shares respectively. The other 17 Vendors will receive an aggregate of 25.5% of the Purchase Shares, none of whom will individually receive in excess of 5.0% of the Purchase Shares. The Purchase Shares are subject to an escrow agreement providing for release over a 36 month period from the date of completion of the GoldChina Agreement.

On September 20, 2004, the Company completed the acquisition of 100% of the issued and outstanding shares of GoldChina. This transaction resulted in the former shareholders of GoldChina owning the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse take-over were applied to record this acquisition. Under this basis of accounting, GoldChina is identified as the acquirer and, accordingly, the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina.

As a result of the acquisition, the Company assumes a liability to repay a total of RMB 14,700,000 or \$2,296,875. Of this amount, 40% of the aggregate purchase price (RMB 8,400,000 or \$1,312,500)(the "Second Payment Instalment") will become payable on the date that Guangnan reserve estimates have been confirmed by the Reserve Evaluation Centre of the State Ministry of Land & Resources or Provincial Department of Land and Resources (the "Reserve Confirmation"). The remaining payment equal to 30% of the aggregate purchase price (RMB 6,300,000 or \$984,375) will become due and payable 360 business days following payment of the Second Payment Instalment. In the event that the aforementioned payments become due prior to December 31, 2005 and the Company has insufficient funds, certain shareholders of the Company will pay on behalf of the Company and the Company shall reimburse such payments to them on the earlier of December 31, 2005 or the date that the Company has sufficient funds.

### **Mineral Interests**

- (a) The Company was granted two (2) mineral exploration licenses, called "Tangshang Gold" and "Salachong Gold", by the Government of China. These two properties are located in Guangnan County, Yunnan province, China. The exploration licenses are valid until February 5, 2006 for Salachong Gold Property and February 27, 2006 for Tangshang Gold Property.

The Company has agreed that if the minimum mineable gold reserve is six tons or higher, the Company would pay \$2,296,875 (RMB 14,700,000) to its two former shareholders, as follow:

- (i) \$1,312,500 (RMB 8,400,000) is due on:
- the completion of all of the exploration work on the Tangshang and Salachong properties; and the confirmation of the exploration results and resource reserves by the Reserve Evaluation Centre of the State Ministry of Land & Resources or Provincial Department of Land and Resources (the "Reserve Confirmation").
- (ii) \$984,375 (RMB 6,300,000) is due and payable 360 business days following payment of the amount due on Reserve Confirmation. In the event that the aforementioned payments become due prior to December 31, 2005 and the Company has insufficient funds, certain shareholders of the Company will pay on behalf of the Company and the Company shall reimburse such

payments to them on the earlier of December 31, 2005 or the date that the Company has sufficient funds.

It should be noted that owing to different methodologies and required data density, the Chinese definitions of resource categories, known as “332”, “333” and “334” differ significantly from current Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards. Also the Chinese classifications may not take into consideration economic viability. As a result, there is a risk that even if economic reserves are not established as defined under National Instrument 43-101, the Company may have to pay the above mentioned additional fees.

(b) On October 22, 2003, the Company through GGC entered into a Preferable Co-operation Agreement with Yunnan Non-Ferrous Metals Geological Bureau, a Chinese Government Agency. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of eight (8) natural resource properties (Shededi Gold, Xiaoguanzhai Gold, Liangshan Gold, Gaoliang Gold, Bawai Gold, Shangzhemeng Gold, Dongmujin Gold and Shangliantang Gold). All these properties are located in Yunnan province, China.

(c) On February 11, 2004, the Company through GGC entered into a second Preferable Cooperation Agreement with Yunnan Non-Ferrous Metals Geological Bureau. Pursuant to the agreement, the Company was granted, for two years, the first right of refusal to acquire the exploration rights in respect of the following nine (9) additional resource properties:

- Jinduo Gold;
- Liuchaichong Gold;
- Wujiazhai Gold & Silver;
- Shihaduo Gold;
- Yanjia Gold & Copper;
- Manlonggou Gold;
- Epu Gold;
- Liaobei Gold; and
- Xiazhai Gold.

All these properties are located in Yunnan province, China.

(d) Exploration costs incurred are as follows:

Cumulative Exploration Costs at March 31, 2005				
	Total	Tangshang	Salachong	
Governmental fees	\$ 546,875	\$ 546,875	\$ -	
Labour	13,252	13,252	-	
Land compensation fees	30,365	30,365	-	
Land lease	161,059	161,059	-	
Professional fees	41,908	20,547	21,361	
Road construction	53,541	-	53,541	
Sub-contract geological exploration	687,500	343,751	343,749	
Surface facilities and supplies	85,401	84,066	1,335	
Valuation and geological report	77,516	38,758	38,758	
Recovery – sundry gold sale	(415,689)	(415,689)	-	
<b>Total exploration costs for the period</b>	<b>\$ 1,281,728</b>	<b>\$ 822,984</b>	<b>\$ 458,744</b>	

Exploration Costs for Nine Months Ended March 31, 2005				
	Total	Tangshang	Salachong	
Professional fees	\$ 19,270	\$ 9,635	\$ 9,635	
Road construction	12,353	-	12,353	
Surface facilities and supplies	3,523	2,188	1,335	
<b>Total exploration costs for the period</b>	<b>\$ 31,624</b>	<b>\$ 11,823</b>	<b>\$ 23,323</b>	

(e) On August 30, 2004, the Company entered into a Cooperative Agreement with Kobex Resources Ltd. ("Kobex") whereby Kobex was granted a right of first refusal to acquire a 60% undivided interest in one resource property available to the Company, excluding the Tangshang and Salachong properties. In order to acquire an interest, Kobex will be required to fund US\$3,000,000 of exploration and development expenditures on the property within three years of the date Kobex identifies a property to pursue an interest in. The right of first refusal will expire on the earlier of Kobex having identified a property to earn an interest in and three years from the date of the Cooperative Agreement. For the property selected, Kobex will also be required to issue to the Company up to an aggregate of 1,000,000 shares from its treasury on a staged basis as follows:

- 200,000 shares upon receipt of title to the property;
- 200,000 shares upon expenditures by Kobex of US\$1,000,000 on the property;
- 200,000 shares upon expenditures by Kobex of a cumulative amount of US\$3,000,000 on the property;
- 400,000 shares upon a production decision being made by the parties in respect of the property.

The president and director of Kobex is also the president and director of the Company.

### **Other Material Contracts**

On June 8, 2004, the Company entered into a Management and Administrative Services Agreement with International Barytex Resources Ltd. ("Barytex"). Under this agreement, Barytex will provide office space and administrative services to the Company for an all inclusive monthly fee of \$6,380.00 plus GST. Included in this amount is the sum of \$2,500 per month for the services of Leo King as President of the Company and \$500 per month for the services of Chelsia Cheam as Corporate Secretary of the Company. Leo King is also the President and director of Barytex.

On September 20, 2004, the Company entered into a service agreement with Huasheng (Canada) Financial Management Ltd., a company controlled by a former director and associated with a current director, whereby the Company agreed to pay \$6,000 a month for management services. This agreement was terminated on February 28, 2005 and the Company entered into a similar service agreement with V&D International Holdings Co. Ltd. effective March 1, 2005, which company was controlled by the same director.

## **Selected Annual Information**

<u>Period Ended</u>	<u>Revenue (\$)</u>	<u>Operating Income/ (Loss) (\$)</u>	<u>Basic &amp; Fully Diluted Loss per Share (\$)</u>	<u>Total Assets (\$)</u>	<u>Long Term Liabilities (\$)</u>	<u>Cash Dividend (\$)</u>
June 30, 2004	Nil	(735,851)	(14.71)	237,408	Nil	Nil
December 31, 2003	415,689	(232,553)	(4.65)	317,746	Nil	Nil
December 31, 2002	Nil	(232,762)	(4.66)	67,711	Nil	Nil

Under the basis of accounting for reverse take-over which was completed on September 20, 2004, GoldChina is identified as the acquirer and the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina. Accordingly, the selected annual information above is that of GoldChina. Financial statements for June 30, 2004 was for a six month period as GoldChina's year end was December 31 and subsequently the year end was changed to June 30 effective January 1, 2004. The financial statement for the year ended December 31, 2002 is unaudited.

## **Change of Accounting Policy**

Effective January 1, 2004, the Company changed its accounting policy to expense exploration costs until such time as reserves are proven. The change of accounting policy has been accounted for retroactively. The net effect of the change in policy reduced the mineral interest value at December 31, 2003 by \$538,036, increased the opening deficit at January 1, 2004 by \$208,553 and increased the loss for the period ended June 30, 2004 by \$708,544. As at March 31, 2005, the Company did not have proven or probable reserves.

## **Result of Operations**

During the nine months ended March 31, 2005, the Company incurred a loss of \$1,030,156 or \$0.04 per share. Exploration costs during the period were \$35,146 and administrative expenses were \$995,010. Major expenses included \$35,146 in exploration costs, \$75,780 in management fees, \$567,969 in stock-based compensation expenses, \$67,956 in traveling expenses, \$53,557 in office and miscellaneous expenses, \$43,254 in salaries and benefits, and \$35,695 in consulting fees. The comparable statements of operations and cash flows for the corresponding periods in the prior year are not available as GoldChina was a private company.

For the quarter ended March 31, 2005, the loss was \$132,403 as compared to \$149,301 during the quarter ended December 31, 2004. The loss was \$16,898 lower mainly due to lower accounting, audit, and legal fees during the current quarter. Major expenses during the current quarter were \$37,140 in management fees, \$16,183 in office expenses and \$15,765 in salaries and benefits.

## **Tanshang Property**

The Tangshang property is located in Guangnan County, Yunnan Province, China. Access is via paved and secondary roads from Kunming City, the provincial capital. On the property several occurrences of gold mineralization have been exposed by trenching and/or tunneling and limited diamond drilling in three separate areas extending over a 4 km strike length of an anticlinal structure. At Saiya, the most easterly of

these areas, several zones of gold mineralization associated with pyrite and arsenopyrite have been identified in sedimentary units within the Middle Triassic Banna Formation. Gold occurs in disseminated, stratiform deposits and in vein-type structures associated with brittle fracture along anticlinal structures.

The widest zone at Saiya is Zone 3 with an average true width of 28.9 meters grading 1.35 grams per tonne. In the central part of Tangshang, known as Bodanshan, several zones of gold mineralization up to 23 meters in thickness have been exposed in trenching and in a tunnel driven across the zones about 50 meters below the crest of the interpreted Tangshang anticline. Wide, low-grade sections have been sampled; one is 56 meters in width and returned 0.60 g/t gold; another is 26 meters wide and assayed 0.76 g/t gold.

The Anglanshan section, the most westerly on the property, was the site of a test heap-leach project in 2003. Approximately 102,000 tonnes of run-of-mine mineralization grading an estimated 0.87 g/t gold was leached on several pads from which approximately 2,020 ounces of gold are reported to be recovered.

During the period of January 1, 2004 to June 30, 2004, a total of 2,630 meters of diamond drilling, 255 meters of tunneling and 2356 cubic meters of trenching was carried out on the Tangshang property. Most of the drilling was concentrated on the Saiya Section No. 3 zone where the widest intersections were encountered. Hole No. ZK4002 intersected 47.5 meters grading 1.71 g/t gold. Hole ZK8002 intersected 11.4 meters grading 2.72 g/t gold and Hole ZK0702 encountered 16.94 meters that averaged 2.63 g/t gold. The trenching was carried out on 6 separate zones. The widest zones of mineralization were exposed by trenching of the No. 3 zone. Gold mineralization encountered in the trenching ranged from 12.7 meters grading 1.83 g/t gold to 74.6 meters that averaged 1.21 g/t gold. Two tunnels were driven on the No. 3 zone. Tunnel PD801 encountered 13 meters averaging 0.58 g/t gold at the northern end of the zone. Tunnel PD3601 intersected 56.7 meters that averaged 1.12 g/t gold. It should be noted that sample length may not represent the true width of the mineralization.

During the nine months ended March 31, 2005, a phase 1 program of geological mapping, tunneling and trenching to further define the known zones of mineralization at Tangshang was proposed and approved by the Board of Directors on November 4, 2004. Total cost of the program is estimated at \$227,000 and the work is expected to take 5 months to complete. Since the reorganization and financing of this company was not completed until September 20, 2004 no work except for project planning was undertaken during the period. Exploration work is expected to start by mid July 2005 at the Tangshang Property once the exploration crews complete work on the Salachong Property.

### Salachong Property

The Salachong property is located in Guangnan County, approximately 80km to the southeast of the Tangshang property. Gold mineralization occurs in the Middle Triassic Banna Formation and is associated with a plunging anticlinal structure partially exposed by trenching along the crest of a 2 km long ridge.

Work during 2002 and 2003 has partially outlined a zone of gold mineralization extending for up to 2km along strike and for approximately 400m across strike. Several wide sections of mineralization cut by trenching and tunneling have been reported as a result of the 2002 and 2003 work. To the southeast, a broad triangular-shaped, fault-bounded area hosts six gold soil anomalies that require follow-up work.

During the period of January 1, 2004 to June 30, 2004, 892 meters of diamond drilling, 299 meters of tunneling and 1,548 cubic meters of trenching was completed on the Salachong property. Trench results included 15.58 meters averaging 1.35 g/t gold and 18.55 meters averaging 1.02 g/t gold that ended in mineralization.

During the nine months ended March 31, 2005, a phase 1 program of geological mapping, geochemical soil sampling and trenching of several previously defined, multi element soil geochemical anomalies was proposed and approved by the Board of Directors on November 4, 2004. Total cost of the program is estimated at \$128,300 and is expected to take 5 months to complete. During March 2005, a 25 km<sup>2</sup> area

was covered by a geochemical soil sampling program. A total of 1,600 soil sample were collected. The soil sampling program was completed during April and results of the survey are expected by mid July 2005.

Mr. Leo King, P. Geo. has reviewed and approved the content of the above discussion on the mineral properties. Mr. King is a Qualified Person under the terms of National Instrument 43-101.

#### Other Activities

In December 2004, the Company signed a Letter of Intent with Hubei Jiayu Shewushan Gold Mine Co. (Shewushan) to establish an Equity Joint Venture Company for gold exploration on licenses held by Shewushan. The licenses cover an area of 120 square kilometers in the vicinity of the Shewushan gold mine located in Hubei province, China. The Joint Venture would also include rights to any gold in sulphide mineralization situated at depth below the gold oxide ore currently being mined by open-pit and recovered by heap leaching. The Company would hold a 70% interest and Shewushan would hold a 30% interest in the Joint Venture. The Company would contribute the first US\$5 million of expenditures and Shewushan would contribute the exploration rights to the property. Any additional expenditure would be made on a pro rata basis. The Company has 60 days to carry out due diligence to determine if it wishes to proceed and if so to then finalize a contract. Shewushan is a well established gold mining company producing in the order of 30,000 oz gold per annum from a heap-leach, open pit operation in Hubei province.

A number of other mineral resource investment opportunities were examined and evaluated during the quarter.

#### Management Change

During the Annual and Extraordinary General Meeting of Members on July 23, 2004, Leo King and Geir Liland were re-elected as directors. In addition, Fan Chang, Jeffrey Ma and Michael Liu were elected as directors of the Company, subject to the completion of the GoldChina acquisition. On September 20, 2004, when the reverse take-over transaction was completed, the appointments of Messrs. Chang, Ma and Liu became effective. On the same date, Roman Shklanka was also appointed as a director.

Effective September 20, 2004, Fan Chang was appointed as Chairman, Leo King was appointed as President and CEO, Michael Liu as Chief Financial Officer, and Chelsia Cheam as Corporate Secretary.

On January 19, 2005, Jeffrey Ma passed away in a traffic accident in China.

#### Investor Relations

The Company is responsible for its own investor relations activities and has not engaged a third party to handle this duty.

## **Summary of Quarterly Results**

Quarter Ended	Revenue (\$)	Operating Income (Loss) (\$)	Basic & Fully Diluted Loss Per Share (\$)	Total Assets (\$)	Long Term Liabilities (\$)	Cash Dividend (\$)
March 31, 2005	13	(132,403)	Nil	1,298,966	Nil	Nil
December 31, 2004	20	(149,301)	Nil	1,458,330	Nil	Nil
September 30, 2004	11	(748,130)	(0.07)	1,743,377	Nil	Nil
June 30, 2004	Nil	(97,585)	(1.95)	237,408	375,000	Nil
March 31, 2004	Nil	(845,839)	(16.92)	176,373	375,000	Nil

Under the basis of accounting for reverse take-over which was completed on September 20, 2004, GoldChina is identified as the acquirer and the combined entity is considered to be a continuation of GoldChina with the net assets of the Company deemed to have been acquired by GoldChina. Accordingly, the quarterly information above for March 31, 2004 and June 30, 2004 are that of GoldChina. The quarters ended after the reverse take-over transaction reflect the results from operations of GoldChina, the legal subsidiary, combined with those of Pacific Imperial Mines Inc., the legal parent, from acquisition on September 20, 2004 to September 30, 2004. Comparative quarterly results prior to March 31, 2004 are not available as GoldChina was a private company which financial statements were not prepared according to Canadian generally accepted accounting principles.

## **Liquidity and Capital Resources**

The Company's business is in development stage and does not generate cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities and loan and advances from directors for financing. During the nine months ended March 31, 2005, the Company has incurred a loss of \$1,030,156 and has accumulated a total deficit of \$2,889,787. As of March 31, 2005, the Company had working capital of \$891,588.

The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

## **Financing**

In connection with the reverse take-over transaction on September 20, 2004, the Company completed a private placement of 8,000,000 units at a price of \$0.25 per unit for aggregate gross proceeds of \$2,000,000. Each unit consists of one common share and one purchase warrant. Each warrant will entitle the holder to purchase one common share from the Company at the price of \$0.45 per share for a period of two years.

Pursuant to the brokered placement, the Company paid the agent a cash commission and corporate finance fee totaling \$211,455, and issued 560,000 Broker Warrants. The Broker Warrants entitles the holder to acquire one common share of the Company at \$0.25 per share for a period of two years. There were no commissions or fees paid for the non-brokered private placement.

## Transactions with Related Parties

- (a) As of March 31, 2005, the following amounts due to related parties are unsecured and non-interest bearing.

	March 31 2005	June 30 2004
Brigade 306 of Yunnan Non-Ferrous Metals Geological Bureau - a former shareholder of GoldChina	\$ 147,000	\$ 234,375
Yunnan Golden Industrial Investment Co., Ltd. - a former shareholder of GoldChina	-	78,125
Beijing United Capital Investment Co., Ltd. – a corporation controlled by two directors of the Company	113,312	350,500
Subtotal – due on demand	260,312	663,000
A corporation related to a former corporate shareholder (see item (b) below) of GoldChina under common control	-	375,000
<b>Total</b>	<b>\$ 260,312</b>	<b>\$ 1,038,000</b>

- (b) In 2003, the Company signed a geological co-operation agreement (“Agreement”) with Yunnan Dian Zhong Yuan (“YDZY”), a subsidiary of Yunnan Non Ferrous Metals Geological Bureau, a Chinese Government agency. YDZY is also related to Gold Carlin Minerals Co. Ltd., a corporate shareholder under common control. Pursuant to the Agreement, the Company agreed to pay a total of \$723,438 (RMB 4,630,000), subsequently amended to \$687,500 (RMB 4,400,000) for certain geological exploration services. As at June 30, 2004, \$375,000 (RMB 2,400,000) remained unpaid. In August 2004, RMB 2,400,000 was forgiven by YDZY and the amount was credited to contributed surplus (See note 7(b) of the consolidated financial statements).
- (c) During the nine months ended March 31, 2005, the Company incurred consulting fees of \$22,545 (RMB 150,000) to two private corporations (Beijing United Capital Investment Co. Ltd., controlled by Michael Liu and Jeff Ma, and Shanghai East Financial Ltd., controlled by Michael Liu) and incurred management fees of \$75,780 payable to Geir Liland, a director of the Company, and to Huasheng (Canada) Financial Limited, a corporation associated with Michael Liu, a director of the Company and V&D International Holdings Co. Ltd., a corporation controlled by Michael Liu. During the nine month period, management fees were actually \$88,573 paid to two directors (Geir Liland, and Richard Chan) and three companies (International Barytex Resources Ltd., Huasheng (Canada) Financial Limited, and V&D International Holdings Co. Ltd.) For financial statement purposes, the Consolidated Statement of Operations and Deficit only shows \$75,780 in management fees as it only covers the period from date of the reverse take-over on September 20, 2004 through March 31, 2005. Two directors of the Company (Leo King and Roman Shklanka) are also directors of International Barytex Resources Ltd.

- (d) In August 2004, debts of \$325,481 (RMB 2,000,000) owed by the Company were forgiven by the three former corporate shareholders of GoldChina, namely Beijing United Capital Investment Co. Ltd., Bridge 306 of Yunnan Non-Ferrous Metals Geological Bureau, and Yunnan Golden Industrial Investment Co. Ltd. These amounts were credited to contributed surplus (See note 9 of the consolidated financial statements). Beijing United Capital Investment Co. Ltd. is a private corporation controlled by Jeff Ma, Zhigiang Guan, and Yunhai Chen.

**Latest Outstanding Share Data**

As of May 25, 2005, the Company had the following outstanding securities:

(1)	Common shares issued	31,546,728
(2)	Stock options	1,860,000
(3)	Share purchase warrants	8,560,000